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ABBREVIATIONS

CSA	Community Services Administration
GAO	General Accounting Office
GLACAA	Greater Los Angeles Community Action Agency
HEW	Department of Health, Education, and Welfare

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REPORT BY THE

Comptroller General

OF THE UNITED STATES

COMPLETED ORIGINAL

OD-0026-082/5921

Decisive Government Action Needed To Resolve Problems Of Community Action Programs In Los Angeles

The Greater Los Angeles Community Action Agency, a community nonprofit organization supported primarily with Federal funds, had serious management and fiscal difficulties for most of its 5-year existence. The absence of clear guidance and decisive intervention by the Community Services Administration contributed to these problems.

In December 1978 the agency was dissolved. Closedown audits and investigations will continue through the end of 1979, and permanent sponsors for essential health, child education, and social service programs have not been selected.

The Community Services Administration should establish clear guidelines, reconciling Federal agencies' responsibilities to protect Government funds with the maintenance of local control. The Community Services Administration should also consider obtaining smaller community-based sponsors for community action programs in the Los Angeles area.

This report was requested by the Subcommittee on Manpower and Housing, House Committee on Government Operations, and Congressman Edward Roybal.

HRD-79-91

JUNE 11, 1979

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-130515

The Honorable Cardiss Collins
Chairwoman, Subcommittee on
Manpower and Housing
Committee on Government Operations
House of Representatives

Dear Madam Chairwoman:

In response to your October 13, 1978, letter, this report discusses the effectiveness of Federal and local initiatives to correct management and financial problems of the Greater Los Angeles Community Action Agency and the usefulness of Federal procedures available to address identified issues of mismanagement.

As arranged with your office, we are sending copies of this report to Congressman Edward Roybal; the Director, Office of Management and Budget; the Director, Community Services Administration; the Secretary of Health, Education, and Welfare; and other interested congressional offices.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

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REPORT BY THE
COMPTROLLER GENERAL
OF THE UNITED STATES

DECISIVE GOVERNMENT ACTION NEEDED TO RESOLVE PROBLEMS OF COMMUNITY ACTION PROGRAMS IN LOS ANGELES

D I G E S T

The Greater Los Angeles Community Action Agency, second largest in the country, was terminated in December 1978. During the 5 years of its existence, audits and investigative and management reports disclosed continuing problems.

The Agency's board of directors did not exercise effective control. Management reports and Community Services Administration (CSA) investigations found ineffective decisionmaking by the board, conflicts of interest within the board, and management influence over board members.

Government attempts to resolve the many problems were unsuccessful because

--questioned audit costs were not resolved promptly;

--timely, aggressive action was not taken on the results of investigations;

--weaknesses identified in management audits were not corrected; and

--program evaluations provided little insight into Agency effectiveness.

The Greater Los Angeles Community Action Agency was created as an independent agency in 1973 under the Economic Opportunity Act of 1964, as amended, and pursuant to a Joint Powers Agreement between the City and County of Los Angeles. During 1977 and 1978 it administered over $30 million annually through about 90 delegate agencies.

Audits and evaluations by the Federal Government and others revealed financial problems and management difficulties throughout most of the Agency's existence. In January 1976, auditors from the City and County of Los Angeles, after completing a joint management audit, recommended that the Agency be dissolved and its programs assumed by the city and county.

In response to the audit, the city and county attempted to implement terms of the Joint Powers Agreement that allow replacing the Agency's board with an interim three-member board. In June 1976, CSA's regional director advised the Los Angeles city council that CSA did not agree that invoking the Joint Powers Agreement terms for an interim three-member board was warranted at that time. CSA's general counsel confirmed this position in July 1976, advising the council that the three-member board was illegal.

After receiving CSA's comments, the city and county curtailed financial and administrative support to the Agency. The Agency executive director resigned in June 1976, and the board of directors appointed a replacement in January 1977.

During the following 7 months, board members made allegations of wrongdoing on the part of the new administration to CSA. In August 1977, a CSA investigation revealed weakened fiscal controls, removal of the position of internal auditor from reporting directly to the Agency executive director, removal of key supervisors without performance evaluations, acquisition of large amounts of equipment without required CSA approval, and direct attempts by the Agency's new executive director to remove board members who opposed him.

In December 1977, the City of Los Angeles decided to withdraw from the Joint Powers Agreement, and in April 1978, it requested CSA assistance in forming a city-administered community action agency. However, the city

and county did not formally act to dissolve the agreement, and in August 1978 CSA's regional office notified the county that, unless it acted to create a successor to the Agency, CSA would discontinue funding it.

The city and county later developed separate plans to designate themselves as community action agencies. The Agency was terminated as of December 31, 1978.

CLOSEDOWN AND TRANSITION TO PUBLIC SPONSORS ENCOUNTER PROBLEMS

As of May 21, 1979, the organization and responsibilities of future community action program sponsors in Los Angeles were uncertain. The city, acting for the Joint Powers, in December 1978 hired a national certified public accounting firm to close the Agency's books and records, identify all assets and liabilities, and determine the status of all programs.

CSA has provided funds to enable the city to distribute the assets to successor organizations and liquidate the liabilities. During the transition period, the county is acting as a conduit of funds to CSA-funded delegates of the Agency, and the city is acting as interim sponsor to the Head Start program.

However, the closedown and transition have encountered several problems:

--The closedown contract remains essentially open ended, and audit plans and requirements have not been fully determined.

--CSA's planned fraud audit of the Agency has not been made.

--Responsibility for Agency liabilities has not been determined; as a result, the submission and approval of plans by the city and county on a successor community action agency have been delayed.

Tear Sheet

IMPLICATIONS OF PUBLIC CONVERSIONS AND DEFUNDING ACTIONS

The authority for converting the Agency from an independent nonprofit agency representing the poor to a public program administered by municipal entities is provided for in the Economic Opportunity Act of 1964 (Public Law 88-452) and CSA regulations. Of almost 900 community action agencies in the country, 81 have undergone such conversions. Also, during the last 5 years, 29 other agencies have been terminated or are no longer funded by CSA, and 19 have been voluntarily terminated by local sponsors.

CSA is concerned about the impact these actions will have on the future and integrity of community action program operations. Because publicly administered programs often dilute participation of the poor in policymaking, CSA's Director modified regulations in May 1979 requiring the creation of community action boards of directors for publicly administered programs.

RECOMMENDATIONS

To further improve the selection and integrity of community action boards, the Director of CSA should:

--Develop safeguards in the selection procedures of area councils for poverty community representatives that preclude large delegate agencies from unduly influencing the selection process.

--Provide technical training for poverty community representatives to make them more effective board members.

--Build safeguards into the processes for removing board members to insulate them as much as possible from political pressures and influence.

--Provide for meaningful participation on the board by public sector representatives.

--Expand conflict-of-interest definitions to preclude from serving on community action boards not only representatives of delegate agencies (as CSA's rules now provide), but also immediate family members of delegate agency officers and employees and other persons with vested interests in delegate agencies or services to be provided to the poverty community.

The Director of CSA should also:

--Develop a code of conduct to govern the actions of community action board members and officers and make it a part of CSA's grant conditions.

--Develop a clear set of guidelines reconciling the Federal agencies' responsibility to protect Government funds and the maintenance of local control over community action agency use of these funds.

--Develop a system for verifying grantee program effectiveness self-evaluations.

--Make enough operating personnel available to effectively follow up on investigative findings.

--Establish procedures for reviewing and approving community action agency designation agreements to assure that terms are viable and consistent with enabling legislation.

--Before adopting Los Angeles City and County proposals for community action programs, thoroughly explore the alternative of designating several smaller community action agencies as possible successors to the Greater Los Angeles Community Action Agency.

AGENCY COMMENTS

GAO discussed information in this report with officials of CSA; the Department of Health, Education, and Welfare; and the City and County of Los Angeles and they agreed with the findings and recommendations. Their views have been included in appropriate sections of the report.

Tear Sheet

CHAPTER 1

INTRODUCTION

The Greater Los Angeles Community Action Agency (GLACAA) was established under the Economic Opportunity Act of 1964, as amended (Public Law 88-452), pursuant to a Joint Powers Agreement between the City and County of Los Angeles in December 1973. GLACAA replaced the Economic and Youth Opportunities Agency, which served as the community action agency from 1965 through 1973. 1/ GLACAA was the Nation's second largest community action agency with a budget of $30 million annually (see app. I) during its last operating years in 1977 and 1978. GLACAA administered a number of health, education, labor, and social service programs through over 90 delegate agencies.

ESTABLISHMENT AND ORGANIZATION OF GLACAA

Under the Joint Powers Agreement, GLACAA operated as a nonprofit agency, separate from the parties to the agreement. The GLACAA board of directors was vested with direction and control to administer and execute the agreement. The agreement allowed either of the parties to terminate the agreement upon 30 days written notice and, in the event of termination, discharge the obligations and dispose of the property interests of the agency and distribute the proceeds to the parties. The agreement also exempted the city and county from any liability, debt, or obligation incurred by the agency.

The agreement also established the Los Angeles city controller as GLACAA controller with right of audit at all times. As such, the city controller was required to make, or contract with a certified public accountant to make, an annual audit. A representative of the city controller was located at GLACAA to match invoices against checks, approve bills, and certify that underlying documentation was on hand.

GLACAA was headed by a board of directors consisting of 15 members: 5 appointed by the county and city governments, 5 representatives from private organizations, and 5 community representatives of the poor. The board's authority, in accordance with the Economic Opportunity Act of 1964, included the power to appoint persons to senior staff positions; to determine major personnel, fiscal, and program policies; to

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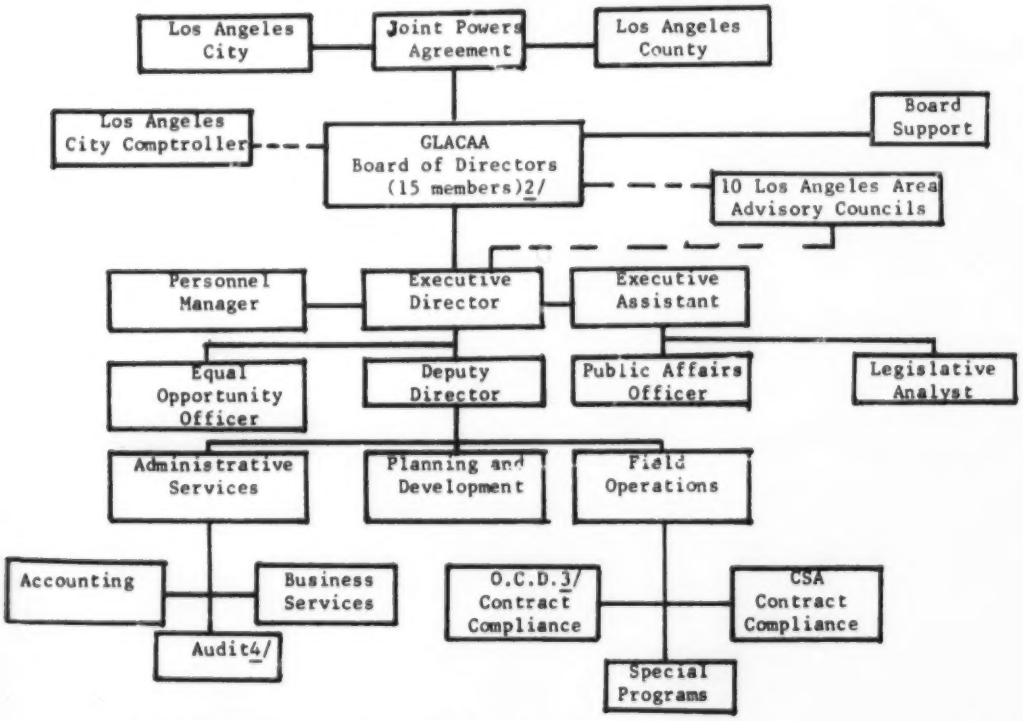
1/GLACAA was created by amending the Joint Powers Agreement for the Economic and Youth Opportunities Agency. GLACAA retained essentially the same operating organization, but its board was reduced from 25 to 15 members. For ease of expression, references to GLACAA in this report are intended to encompass both GLACAA and its predecessor agency.

approve overall program plans and priorities; and to approve proposals for and assure compliance with conditions of financial assistance agreements.

The region served by GLACAA was divided into 10 poverty planning areas. The five representatives of the poverty community on the GLACAA board of directors were to be democratically elected by paired poverty planning areas. Within each poverty planning area, an area council was organized. To be a voting council member, one had only to reside in the area and to attend two consecutive monthly meetings. The area councils were intended to be GLACAA's extension into the community--the people's vehicle for expressing their needs to the GLACAA administration. The councils were also responsible for making funding recommendations to the board. An organization chart of GLACAA follows.

GREATER LOS ANGELES COMMUNITY ACTION AGENCY ORGANIZATION, 1977 - 1978 1/



1/ Chart excerpted from the Technical Services Organization Report on GLACAA of January 1978 (see page 37).

2/ The Board operated with six Standing Committees comprised of three Board members each.

3/ Office of Child Development programs of HEW.

4/ Audit was a separate Bureau reporting directly to the Executive Director until 1977 when the new Executive Director placed it in the Administrative Services Department.

EVENTS LEADING TO THE CLOSEDOWN OF GLACAA

GLACAA had a history of financial and administrative problems. As early as 1972 a combined Los Angeles City and County audit team found administrative deficiencies in the management of GLACAA's predecessor. In January 1976, a similar team concluded that GLACAA was not performing acceptably and recommended that it be dissolved and its responsibilities and program activities be assumed by the city and county. (See app. II.) The Community Services Administration (CSA) and the Joint Powers considered alternatives to dissolving GLACAA. In June 1976 the executive director resigned and in January 1977 a new director was appointed. In October 1977, CSA voiced concern about GLACAA's performance and wrote to the board of directors indicating GLACAA should take a hard look at what it was doing and be prepared to change.

On December 15, 1977, the clerk of the City of Los Angeles advised officials of the city, the county, and GLACAA that the city council had passed a motion to withdraw from GLACAA. The city council affirmed this position in April 1978, and the mayor of Los Angeles requested CSA assistance in forming a public community action agency using organizational elements of the city government. However, neither the city nor the county took formal action to dissolve the Joint Powers Agreement. On August 7, 1978, CSA regional officials notified the chairman of the Los Angeles County board of supervisors that CSA would terminate GLACAA's funding unless the Joint Powers took definitive action toward designating a successor. In December 1978 GLACAA was dissolved and its functions assumed on an interim basis by the city and county.

IMPLICATIONS OF PUBLIC CONVERSIONS AND DEFUNDING ACTIONS

The authority for converting GLACAA from an independent nonprofit agency representing the poor to a public program administered by municipal entities is provided for in the Economic Opportunity Act of 1964 (Public Law 88-452) and CSA regulations. (See app. III.) Of almost 900 community action agencies in the country, 81 have undergone such conversions. Most conversions occur with urban community action organizations, where substantial amounts of CSA and other Federal resources are provided. Also, during the last 5 years, 29 other community action agencies have been terminated or defunded by CSA, and 19 have been voluntarily terminated by local sponsors.

CSA is concerned about the impact these actions will have on the future and integrity of community action program operations. Because publicly administered programs often dilute participation of the poor in policymaking decisions, the Director of CSA modified regulations in May 1979 requiring the creation of community action boards of directors for publicly administered programs. Such boards would participate jointly and concur formally in the selection of an agency's executive director and senior staff.

SCOPE OF REVIEW

We reviewed the actions of Federal and local agencies to resolve GLACAA's past problems and the status of GLACAA's closedown and transition to public sponsors. Our work was limited to examining prior audit, management, and investigative reports; assessing past program evaluations by Federal funding sources; and monitoring ongoing activities of Federal agencies related to the closedown and establishment of successor community action agencies. We also interviewed CSA, Department of Health, Education, and Welfare (HEW), and Los Angeles City and County officials and ex-GLACAA employees. We discussed the information contained in this report with CSA, HEW, and Los Angeles City and County officials, who generally agreed with our findings and recommendations.

CHAPTER 2

AUDITS AND INVESTIGATIONS DISCLOSED MANY PROBLEMS AT GLACAA

Audit reports, investigative reports, and management evaluations reveal a long history of fiscal and management problems at GLACAA. However, costs questioned by audits were not resolved in time to allow CSA to recover the funds before GLACAA went out of business, and compliance and management problems persisted. In addition, CSA's response to investigations of GLACAA was not prompt or aggressive enough to overcome the continuing problems.

AUDIT FINDINGS AND QUESTIONED COSTS ON CSA GRANTS WERE NOT RESOLVED

Since 1973, GLACAA's funds received from CSA had been audited by the certified public accounting firm of Vasquez, Quezada, and Navarro at a total cost of $209,000. Under the Joint Powers Agreement, the Los Angeles city controller was designated controller of GLACAA and thereby charged with making, or causing to be made, an annual audit. However, representatives of the city controller told us they had never been charged with resolving deficiencies raised in accounting firm audit reports of GLACAA and, in fact, were precluded under California law from doing so. Until late 1977 they had neither received nor requested these audit reports.

Questioned costs were not resolved promptly

As of December 1978, Vasquez, Quezada, and Navarro had completed four audits covering fiscal periods ended December 31, 1973, and June 30, 1975, 1976, and 1977. An audit covering the period from July 1, 1977, through September 30, 1978, excluding issues of fraud, was essentially complete as of May 14, 1979. The four completed Vasquez audits questioned a total of $2.6 million in costs. As of the end of 1978, only the 1973 audit, representing about $971,428 of the questioned costs, had been resolved to the satisfaction of CSA regional officials.

On November 30, 1976, CSA's regional auditor reviewed settlements of questioned costs on selected audits. GLACAA's 1973 audit was one of the five settlements reviewed. The region had allowed all but $15,073 of the $971,428 questioned,

but the regional auditor could not find support for $72,428 of the costs. He found that, although the regional office had requested GLACAA to submit justification and/or documentation to its certified public accountant for these costs, this was not done. The regional auditor took no corrective action since the regional director had indicated that he would reopen this matter with the grantee.

CSA intra-agency correspondence indicated that it had historically had problems resolving questioned costs at GLACAA. Regional officials advised us that the time required to resolve questioned costs had been excessive and that the process should not generally take over 60 days. CSA's deputy regional director attributed the delay to a shortage of personnel performing the audit function. He said that, because of such shortages, CSA was unable to visit grantees and had to rely on desk reviews to resolve problems disclosed in annual audits.

The audits for fiscal years 1975 through 1977 had not been resolved by the end of 1978. To alleviate this problem and to improve monitoring capabilities, late in 1978 the financial management branch was created and one person was added to the audit staff. The region plans to add another person to the audit staff as soon as possible. It hopes that, with these additions, most of the timeliness and inaction problems will be resolved.

On November 22, 1978, CSA headquarters responded to the problem of unresolved audits. CSA's assistant director of the Office of Community Action stated in his memorandum to all regional directors that "The agency continues to have an unacceptably high number of open audits" and that "extraordinary steps are still needed to bring the number into acceptable range." The assistant director ordered the regional offices to resolve all audits up to and including fiscal year 1976 by January 31, 1979. To expedite audit resolution he directed the regions to:

--Close all fiscal year 1977 or earlier audits that remained open only because of noncost deficiencies.

--Administratively allow questioned costs when the total of such costs is less than $5,000 and the audit is from fiscal year 1977 or earlier.

--Allow any costs questioned on the basis of failure to meet the non-Federal share, providing that at least a 20-percent non-Federal share can be documented.

With GLACAA no longer in existence, CSA has no source from which to recover funds spent inappropriately and may have lost not only the amount of the questioned costs, but also the related investment of time and costs in performing the audits.

Compliance problems persisted

In addition to the questioned costs, recurring compliance problems were identified in the annual audits. Vasquez, Quezada, and Navarro audit reports repeatedly cited the following recurring weaknesses in GLACAA disbursing procedures:

--Payments were made without documentation of receipts of goods and services.

--Documents used to support payments were not canceled when paid.

--Payments were made based on reproductions of vendor statements and other information which could easily give rise to duplicate payments.

--Payments were made without approval.

Incomplete personnel and payroll data were identified as a deficiency as early as 1972. In their report dated September 28, 1973, Vasquez auditors warned GLACAA that the absence of concise checks and balances and incomplete personnel files at GLACAA might result in the hiring of employees with falsified previous employment histories, payrate errors, and inclusion on the payroll of nonexistent employees. Audit reports for the years ended June 30, 1976, and June 30, 1977, also cited incomplete personnel and payroll data as a shortcoming. The report for the year ended June 30, 1977, cited contracts for consultants and other services that either lacked supporting documentation or were signed after the services were rendered.

Other weaknesses included a lack of interfund and bank reconciliations, a lack of reconciliation of various general ledger accounts, and poorly maintained physical inventory records. The audit covering July 1976 to June 1977 specifically noted that more care should be exercised in following established procedures.

Regional CSA officials said they were not aware that particular compliance problems had been recurring. They

agreed that something should have been done to stop these problems once they surfaced in a second audit and it became apparent that they were not being corrected.

CSA's deputy regional director stated that fiscal problems probably exist at most CSA grantees. Even with additional staff he believes that it will take a couple of years to correct all of the grantees' problems. He hopes that training can occur during this time so that community action agencies can learn to correct these problems and manage their fiscal responsibilities.

HEW AUDITS IDENTIFIED PROBLEMS

Audits of the HEW funding to GLACAA revealed similar problems. HEW funding for the Head Start program has been audited by the certified public accounting firm, Wilfong and Company, since 1973 at a total cost of $176,000. The audits have resulted in questioned costs of $3.1 million, of which $347,000 was ultimately disallowed by HEW and the balance resolved to HEW's satisfaction.

Wilfong's audits also identified several weaknesses in GLACAA's internal control mechanisms. Controls were not considered adequate in the areas of petty cash, equipment, payroll preparation and payment, purchasing, records safekeeping, travel advances, advances to delegate agencies, and food allowances for delegate agencies. The audits also identified the following problems: books of account not being closed at the end of the program year, acquisitions of nonexpendable property and equipment being improperly accounted for, advances to delegate agencies in excess of the prior year's actual expenditures remaining outstanding, and some modifications being made to GLACAA's and delegate agencies' budgets after submission to HEW.

An HEW regional official said that HEW's standard response to the Wilfong audits was to write a letter requesting GLACAA to come into compliance and resolve questioned costs. According to the official, this was accompanied by constant followup and technical assistance.

In August 1978 the acting head of HEW's regional office of administration for children, youth and families wrote GLACAA's board chairman indicating that GLACAA's ability to administer the Head Start program effectively and responsibly had been cast into doubt. He noted GLACAA's fiscal performance over a period of time and the loss of fiscal resources resulting from the State of California's cessation of a

$4.9 million grant for the State's preschool program as of June 30, 1978. (See p. 27.) With the impending termination of CSA's administrative funding of GLACAA, HEW began negotiating with the City and County of Los Angeles and other organizations to assume interim responsibility for all the Head Start programs until a permanent grant award could be made.

LOS ANGELES CITY CONTROLLER AUDITS IDENTIFIED CIRCUMVENTION OF CONTROLS

The Los Angeles city controller's office made two audits of GLACAA. In October 1975 the controller completed an examination of the accounting and related records of GLACAA's administrative services department covering from January 1, 1973, to June 30, 1975. The examination included a study of GLACAA's internal accounting controls and administrative control procedures. In the auditor's opinion, GLACAA's procedures were adequate to safeguard its assets and to check the accuracy and reliability of the accounting data. However, the report did list several audit findings, including the following:

--Several terminated grants for 1972 and 1973 had not been closed out and the unexpended cash balances had not been returned to the granting agencies.

--The last physical inventory of furniture and equipment for GLACAA and for delegate agencies, taken in November 1973, had not been reconciled to the records.

--An annual combined balance sheet and a combined statement of operation were not prepared.

--Timecards claimed hours worked by some employees before the date shown on their appointment document and hours worked by others after their termination date.

--In one department unauthorized personnel were signing off and receiving checks for employees.

The Los Angeles city controller's office began another audit of GLACAA in December 1977 and released its report in October 1978. The findings were summarized by the following statement in the transmittal letter to the GLACAA board of directors.

"Our audit has revealed what appears to be a systematic effort, by your top level administrators, to avoid the scrutiny of your Board by repeatedly circumventing checks and balances established to safeguard your agency's assets."

Specifically, the audit determined that:

--Money was paid to various individuals for goods and services for which there were no written contracts, purchase orders, invoices, or delivery receipts.

--Competitive bidding requirements (for purchasing goods and services in excess of $500) were almost universally ignored.

--Most purchases of office supplies and equipment were made from a single vendor.

--Office equipment far in excess of apparent need was purchased (from the above-noted vendor) only to be stored and unused.

--Office equipment in workable condition, or in need of only minor repair, was stored or left idle.

--Expensive office equipment in apparently acceptable condition was sold without prior written CSA approval and unnecessarily replaced with new equipment. The requirement of prior written CSA approval for the sale of property and equipment was designed to prevent this specific abuse.

--A member of the board of directors was overpaid approximately 80 percent for allowances for attending meetings.

--The director and his executive assistant, while allegedly traveling on official business, had occasionally made side trips that appeared to be personal in nature.

In addition to these two audits, the city controller maintained a senior auditor at GLACAA to perform preaudit and postaudit duties. This senior auditor was responsible to the chief auditor of the city.

This auditor's primary duties were

--checking for authorized signatures on invoices, purchase orders, and requisitions;

--checking invoice amounts and comparing them with the amounts on vendor checks;

--test checking completed contracts; and

--test checking payments for payroll.

In March 1978 the senior auditor who had held this position since 1973 was replaced. According to officials of the controller's office, the auditor had not followed professional accounting and auditing standards and principles in

--not verifying vendor payments to invoices or purchase orders on some payments,

--approving some vendor payments based on timecards instead of invoices, purchase orders, or contracts; and

--not thoroughly auditing timecards for completeness.

In October 1978 the senior auditor was suspended for 5 working days without pay.

The senior auditor admitted to us that he was lax during his last year at GLACAA in allowing some payments to be made to vendors without supporting invoices or purchase orders. However, he said that, before doing this, he orally informed the chief auditor about alleged improprieties at GLACAA--specifically, purchases from one vendor that were made without competitive bidding and allegations by GLACAA employees of management impropriety.

The chief auditor said he had little contact with the senior auditor at GLACAA. He maintained that the previous chief deputy controller primarily supervised the senior auditor at GLACAA. According to the chief auditor, he had no idea of any improprieties at GLACAA until the city audit that started in December 1977 and he received most of his information about GLACAA from newspaper reports. He stated that GLACAA received a very low priority and that his main concern was meeting the needs of City Hall.

CSA'S RESPONSE TO INVESTIGATIONS OF GLACAA DELAYED

CSA's Inspection Division made five investigations at GLACAA between 1976 and 1978. Two of these dealt with delegate agencies; the other three were concerned with GLACAA. However, the followup action on the results of investigations was not timely or effective in correcting GLACAA's problems.

Investigation of the Media Center for Community Action

The Media Center for Community Action, a GLACAA delegate, was awarded a $73,422 grant for September 1, 1974, to August 31, 1975, to produce and distribute five films to acquaint low-income residents about availability of media resources. Initially, the Media Center operated out of the home of its director until GLACAA helped the Center find an office in October 1974.

On October 6, 1976, CSA's general counsel, at the request of the regional director, ordered an investigation of the Media Center. An audit by GLACAA of this delegate agency had questioned costs of $55,000 and identified the possibility of fraud. The investigator noted the following findings in the inspection report:

--A Media Center employee did not go to pick up her paycheck at a GLACAA-conducted "payout" of Media Center payroll checks. The Los Angeles district attorney's office believed this person to be the 13-year-old stepdaughter of the Center director. In addition, this person never reported for work at the Center for 7 months of employment as a secretary and graphic artist although she was paid more than $2,300 during that period.

--No films were ever produced, although the Center billed GLACAA for $14,800 for apparent filming activities by Staddie Jackson Film Production Services. GLACAA paid out $4,570 before questioning these costs. GLACAA auditors could not locate Staddie Jackson or Staddie Jackson Film Production Services, and the Media Center's director would not respond to requests for clarification.

--GLACAA auditors found two separate sets of articles of incorporation for the Center, each designating a different group of directors although both sets had

been filed on the same date. The corporate directors listed in the first set of articles were the Center director, his mother, and his wife. The second set contained two additional names, one of which was a former Media Center employee who said his name was used without his knowledge.

Summarizing the results of this investigation, CSA's general counsel stated in a memorandum to the regional director that the Media Center director apparently accepted a grant with the clear intention of diverting the moneys obtained to other purposes.

The CSA investigator stated in the inspection report that an assistant U.S. attorney in Los Angeles had advised GLACAA by October 4, 1976, letter that there was insufficient evidence to show that a crime had occurred. However, CSA's general counsel recommended that the U.S. attorney's office continue the investigation of this matter. The U.S. attorney later referred the investigative results to the Los Angeles County district attorney for action.

On October 28, 1977, a CSA assistant director advised CSA's general counsel that prosecution by the county appeared doubtful. On December 15, the general counsel stated that GLACAA had been instructed to take civil action against the Media Center since Federal or local prosecution did not seem probable. The director of CSA regional operations told us he did not know whether GLACAA ever took civil action against the Center. He explained that much of the information regarding this investigation was passed directly back and forth between the former regional director and CSA's former general counsel without involving his office, and a system to follow up on investigative reports was not in existence at the time.

Based on the investigative findings outlined in the inspection report, CSA's general counsel also recommended that:

--The regional director disallow the cost of the Media Center grant and require GLACAA to absorb the loss.

--The regional director review GLACAA's procedures for making grants to ascertain whether they were sufficient to protect Federal funds from abuse.

On January 14, 1977, in response to the recommendation that the cost of the Media Center grant be disallowed, the regional counsel stated that GLACAA would be given the normal opportunity to justify the costs for the Center before such costs were disallowed. On August 15, 1977, a CSA staff attorney, in a memorandum to the general counsel, wrote that the regional response to the Media Center problem had been half hearted and that the region apparently did not accept the recommendation for an evaluation of GLACAA's grant-making process.

On December 15, 1977, the assistant director of the Office of Community Action wrote that regional personnel had begun reviewing GLACAA's contract award and monitoring systems. However, the director of regional operations in Washington told us that at about this time the City of Los Angeles had moved to withdraw from the Joint Powers Agreement, and since closedown was inevitable, CSA shifted its attention from resolving investigative issues to finding a successor. He did not know whether the costs had ultimately been recovered. The regional deputy director told us that CSA had not recovered the costs. The matter is among the unresolved questioned audit costs, and with GLACAA out of business, the source for recovery by disposition of assets will be limited.

1977 GLACAA inspection

Based on complaints, including those by two GLACAA board members, the CSA regional director requested an investigation of GLACAA. Two CSA investigators made the investigation from July 14 to August 2, 1977. Key facts brought out by the CSA investigators were that the new GLACAA administration had

--weakened fiscal controls,

--ordered several hundred thousand dollars worth of office equipment without bids or the required CSA approval, and

--removed key supervisors without evaluation and replaced them with acquaintances of the executive director.

The investigations also noted that:

--The executive director made personal, direct attempts to remove GLACAA board members who opposed him.

--The internal audit chief's position was removed from reporting directly to the agency executive director.

--Purchase orders for office supplies were canceled and the supplies were purchased from another firm at higher prices.

In October 1977, CSA's general counsel transmitted the inspection report to the assistant director of the Office of Community Action, summarizing his comments and conclusions and asking what action would be taken in regard to

--monitoring the procedures used to process the grievances filed by the dismissed GLACAA employees,

--recovering the funds spent on equipment purchases without CSA approval,

--insuring that GLACAA's budget controls were adequate to protect funds, and

--resolving the question of GLACAA's ability to function efficiently.

In November 1977 the regional director indicated that the following action would be taken in response to these points:

--Procedures used to process grievances filed by the dismissed GLACAA employees were to be monitored and staff support needs to carry out the procedures were to be assessed.

--Two staff persons were dispatched from the property unit to GLACAA to identify property transactions at issue. The grantee's audit, in progress at the time, was expected to highlight the property transactions in question. A letter was to be sent to GLACAA's board of directors advising them that any future purchases made in violation of established procurement procedures would be disallowed without benefit of response.

--Because the inspection report disclosed a series of intentional breaches of established controls, GLACAA was to be placed on notice that continued breaches would result in a denial of re-funding on the grounds that it was incapable of administering its program.

The regional director pointed out that he was not in the position to respond to the question of GLACAA's ability to function effectively (i.e., question of efficiency raised by CSA's general council). He explained that the information and evidence outlined in the inspection report did not give rise to the question and that resolving the question depended on factors outside this investigation. According to the regional director, this did not mean that the region was not performing its technical assistance function or that it would not move to deny re-funding if it concluded that the administration for this particular grant was not in the best interests of the poor or of the Federal Government.

CSA's director of regional operations in Washington said it was his understanding that, when the city council voted to withdraw from the Joint Powers Agreement in December 1977, the agreement would then automatically dissolve and Los Angeles would be left without a community action agency. CSA therefore focused on finding a successor organization, not on resolving issues cited in the investigative report. He said that, although CSA did look into some of the major items cited in the report (for example, the property issues), it did not follow up as intensively as it would have had it not been under the impression that GLACAA was being closed.

Investigation of the Neighborhood Adult Participation Project employees trust fund

In 1969 and 1970, the Neighborhood Adult Participation Project, a major GLACAA delegate, received a remittance from the Internal Revenue Service of about $400,000, consisting in part of $283,147 in employer Federal Insurance Contribution Act contributions, because the Project had been exempted from the act's requirements. In late April 1972 the Project established a trust fund with the $283,147, and it eventually started using the trust income to fund a dental program for Project employees and their families. The Project never obtained CSA approval to use these funds for this or any other purpose. In 1976, $328,000--which represented the trust and accumulated interest--was deposited in a savings account, and $75,000 of this amount was loaned to a small electronics manufacturing company. In December 1977 another loan was made to the same company for $250,000.

The Project's retention of the refunds remained a continual source of contention between the Project, GLACAA, and CSA. From 1971 GLACAA continued to demand that the Project refund the trust fund to CSA. The Project refused to do so,

maintaining that the trust fund belonged to Project employees and operated for their interests. In 1978, at the request of the regional director, an investigation was made to verify the use to which the funds had been put, to determine their exact whereabouts, and to look for evidence that the funds had been criminally converted. The inspector questioned:

--The good faith of the trustees during a time when the legality of the trust was being questioned (the trustees made the major portion of the trust unreachable for at least 5 and possibly 10 years).

--The legality under California law of the trustee's placing almost all the funds of the trust into one investment.

However, the inspector found no evidence that the funds in question were being fraudulently or otherwise illegally converted.

In response to the investigative report, the Community Action Office ordered that an amount of money equivalent to that in the Project trust account be withheld from GLACAA and that GLACAA recover the money from the Project. However, after this action, CSA's general counsel determined that Project employees might have rights to the trust fund. Therefore, the general counsel contended that CSA could not recover the funds by deobligation. Since GLACAA's grant had already been reduced, the Community Action Office had to make a special grant to restore the money to GLACAA.

CSA's Office of Legal Affairs and general counsel indicated they would continue to work with the Office of Community Action, the regional office, the Neighborhood Adult Participation Project, and GLACAA to reach an amicable settlement. This issue had not been resolved by the end of December 1978, when GLACAA went out of existence. On March 30, 1979, the CSA general counsel completed an analysis of issues arising out of creation of the trust fund and advised the Project's attorney that CSA was planning to proceed with legal action against the Project to recover the funds.

Investigation of alleged fraud involving GLACAA's proposed weatherization program

In late February or March 1978, the regional director received a packet of information from an anonymous source alleging that a certain GLACAA employee had attempted to set up an arrangement with other employees whereby a portion of

GLACAA's weatherization funds from CSA could be diverted for personal use. The regional director informally forwarded the packet to the chief of CSA's Inspection Division.

About the same time, the packet of information was also provided anonymously to the California State Economic Opportunity Office. The director of that office sent the packet to the CSA regional director under a March 16, 1978, memorandum for the record, which contained additional information based on discussions with an unnamed source at GLACAA. The memorandum motivated the regional director to formally request an inspection on March 23.

The investigator found that the GLACAA weatherization project manager had stated in a letter dated February 7, 1978, that GLACAA's acting director of business services tried to recruit him as a participant in an alleged plot to defraud. GLACAA's executive assistant generally corroborated the assertions in a February 8, 1978, letter to GLACAA's executive director, stating that he, too, had been approached by the acting director of business services regarding the scheme. However, the allegations by the weatherization project manager were not further substantiated by the CSA investigator because the executive assistant would not speak with the investigator and the acting director denied ever making any such overtures to either person. All three individuals mentioned above terminated employment with GLACAA shortly after this incident.

The investigator concluded that a scheme had not been set up because not all of the necessary participants would agree to take part.

CSA's general counsel determined that there was insufficient evidence to conclude that an attempt had been made to set up a fraudulent scheme and that the lack of specificity and development in the alleged scheme would render any criminal prosecution difficult, if not impossible. The General Counsel added:

> "Even if the alleged overtures were made, it would have been impossible to bring the scheme to fruition since the weatherization budget had not been approved by CSA and [CSA's] Region IX. No money was then available; therefore, no one had a chance to steal it."

Accordingly, CSA took no further action on this matter.

1978 GLACAA inspection

In October 1978 CSA initiated a preliminary investigation of GLACAA as a result of a letter from "Concerned GLACAA Employees" and the airing of the "60 Minutes" television program on October 8, 1978. Both criticized GLACAA's operations and enumerated several allegations of fraud against the Government.

Among the matters investigated were that:

--The former executive director had received $2,974 as reimbursement for moving his household goods from Arizona to Los Angeles without having moved.

--The former executive director worked only 2 or 3 days each week yet submitted timecards reflecting a 40-hour week with substantial overtime.

--Insurance policies were obtained without competitive bidding or Board approval.

--GLACAA had ghost employees on the payroll.

--GLACAA received money for a Christmas party from vendors the agency did business with.

--GLACAA entered into contracts for legal and other professional services without appropriate approvals or competitive bidding, where applicable.

The report on the results of this investigation was approved by CSA's Office of Legal Affairs on December 14, 1978, and was forwarded to Vasquez, Quezada, and Navarro for their consideration in the fraud audit of GLACAA. (See p. 38.)

CSA revises inspection procedures

In January 1979 we discussed with CSA's general counsel and director of regional operations GLACAA's problems and the need for documenting actions on investigations, for taking more timely action in initiating work, and for acting on the results of inspection reports. In April 1979 the Director of CSA approved new inspection instructions adding the following requirements.

--Within 5 days after receiving an original investigation request, top CSA operating officials will prepare a written evaluation of the request with recommendations to the general counsel on initiating an inspection.

--Within 15 days after the initial request, the general counsel will notify responsible CSA operating officials and the original requestor in writing of his decision on whether to make an investigation.

--Within 30 days after completing an investigation, the general counsel will transmit copies of the inspection report to affected operating officials with comments and conclusions.

--Within 35 days after receiving the general counsel's report, CSA operating officials will prepare a written memorandum on actions planned or taken in response to the report.

--The general counsel will review the memorandum and, if he finds further action to be necessary, make appropriate recommendations to responsible CSA operating officials.

CSA's new procedures might have brought about more timely action on some of GLACAA's problems if they had been in place during the last 2 years. However, CSA's inspection force has been expanded by almost 50 percent in conjunction with the creation of an Office of Inspector General in CSA. With the increased inspection efforts, CSA will need to assure that sufficient operational personnel are available in its regions to follow up on investigative findings.

WEAKNESSES IDENTIFIED IN MANAGEMENT AUDITS WERE NOT CORRECTED

In 1972, the joint forces of the Los Angeles city administrative officer, the Los Angeles county chief administrative officer, and the State Office of Economic Opportunity, under the leadership of the city administrative officer, made a management audit of GLACAA. The audit was made in response to concerns of the Governor of California about GLACAA operations and the belief that certain changes were necessary to assure the State's continued support of program funding. The management audit report indicated that

--the board of directors had not been an active and responsible body;

--the community was divided in its views on how the poverty programs should be directed;

--sound, adequate fiscal operations and controls were lacking;

--recent Labor Department action to withdraw $10.7 million confirmed the severity of the management and fiscal problems;

--present operation under the Joint Powers Agreement, with almost total delegation of authority to the agency, was highly unsatisfactory;

--evidence clearly indicated that the total community within which the agency operated had lost confidence in its operations; and

--legitimate questions could be asked about the agency's size and its ability to relate to specific community concerns.

The report contained 33 recommendations to improve operations.

In January 1976, a management audit of GLACAA was completed by joint forces of the City and County of Los Angeles. (See app. II.) The joint forces found that GLACAA had substantially implemented all of the recommendations of the 1972 audit that were within its purview. The major exception was the recommendations relating to personnel operations, and the joint forces found that lack of attention to this critical area was reflected in problems found in the audit. The audit also found that:

--Despite earlier recommendations and the recommendation of numerous other audits and evaluations, GLACAA's performance had deteriorated.

--GLACAA was operating without clear policy direction and strong administrative leadership and lacked sound management practices.

--Critical decisions were not being made and staff morale was poor.

--The agency was not complying with some of the legal requirements of the Federal, State, and local agencies that had entrusted GLACAA to administer funds and services for the economically disadvantaged.

The report stated that the many unresolved issues raised by board members, employees, community members, delegate agencies, auditors, grantor agencies, and elected officials clearly indicated that GLACAA's performance was not

acceptable. The prime responsibility for GLACAA operations rested with the board of directors, which had the power and authority to improve GLACAA's performance. However, the report concluded the board was unable to address issues expeditiously and that unresolved issues bounced back and forth between the board, its committees, and the staff. The board complained of inadequate information from the staff, and the staff complained of inadequate budget resources to provide adequate staff support.

The report pointed out that the board's preference for maintaining program funding levels at the expense of administrative requirements raised the question: "How can the City and County as joint sponsors of GLACAA assure that the administrative deficiencies uncovered by an audit will be corrected?" The report stated that all indications were that the GLACAA board, its committees, and the administration had materially contributed to the problems noted and would be unable to correct GLACAA's deficiencies. For these reasons, the joint forces recommended that GLACAA be dissolved and its responsibilities be assumed by the city and county effective July 1, 1976.

In the event that city and county executives decided to continue GLACAA, the joint forces offered separate recommendations. The joint forces pointed out that intergroup conflict permeated GLACAA and that it was manifested within the board, between the board and the staff, between ethnic and racial groups, between delegate agencies and GLACAA, and between employees and administration.

According to the joint forces report, the present GLACAA board did not include or represent all the interests the agency must consider, included representatives from only 5 of the 10 designated poverty areas, and did not include representation from the Head Start Policy Council. Eight designated private agencies rotated their participation on the GLACAA board among five seats. (See p. 29.)

The joint forces report also stated that the way in which GLACAA received its grant funds from CSA, HEW, and the Joint Powers created continuous uncertainty about the agency's future existence. None of the grantors provided funds in advance of the need to expend them, and the agency was uncertain from day to day whether it would have enough cash to operate. As a result, to continue operations, the agency commingled funds from various grants.

The joint forces report indicated that many matters had to be addressed by the GLACAA board and administrative staff if the agency was to ever meet its basic objectives. These included the following:

--The lack of significant community participation in the area council elections raised questions about whether the councils actually represented the poor.

--GLACAA provided numerous services and much assistance to delegate agencies, which placed them in a dependent status. The delegate agencies were not satisfied with assistance they were receiving, and GLACAA felt it lacked the resources to fully service delegate agencies.

--GLACAA needed to establish budget controls that would assure a logical, rational expenditure program for both administrative and programmatic concerns. The use of program funds to pay for administrative over-expenditures created considerable tension within the agency.

--In spite of the 1972 management audit's detailed recommendations concerning personnel administration, the agency was still practicing erratic personnel administration.

In summary, the joint forces report stated that GLACAA's status as a viable and productive organization was in serious doubt. Instead of progressing in its ability to administer funds and services to the poor, the agency had fallen victim to a bureaucratic tug of war, largely along racial and ethnic lines. The joint forces believed that it was unlikely that the agency could take the dramatic steps necessary to focus upon its basic objectives and that unrest and uncertainty in the delivery of services to the poor in the Los Angeles area would continue. For these reasons, the joint forces recommended that GLACAA be dissolved and its responsibilities and program activities assumed by the city and county effective July 1, 1976.

On January 26, 1976, the GLACAA executive director and the board agreed to implement almost all of the joint forces' recommendations, but indicated that technical assistance from the Joint Powers and amendments to the Joint Powers Agreement would be required. The response did not cite a need for additional technical assistance or support from CSA, its principal administrative funding source.

JOINT POWERS THWARTED IN EFFORT TO CLOSE GLACAA

In response to the management audit, the Joint Powers attempted to invoke section XXIV of the Joint Powers Agreement. Invoking this section would have permitted the Joint Powers, subject to the written concurrence from the CSA regional director, to appoint three people (one from each of the three sectors: public agency, community, and organization) to act as an interim board of GLACAA for up to 60 days.

However, in a February 12, 1976, letter to the Chairman of the Los Angeles County board of supervisors, the CSA regional director wrote that the Joint Powers would have to obtain CSA written concurrence on the following before they would be allowed to invoke section XXIV:

--The existence of sufficient cause to institute emergency interim management procedures.

--The mission and powers of an interim board.

--The duration of the interim board's functioning.

--The composition and method of selection of the interim board.

CSA also noted that locally elected officials had the prerogative to determine the need for redesignation of a community action agency. In the face of the Joint Powers findings, CSA urged the city and county to undertake a conscientious, thorough fact-finding effort before acting to change GLACAA's designation. CSA emphasized that, if the redesignation alternative were selected, the board would have to develop a transition plan, obtain public comment, and secure CSA approval. CSA substantially agreed with the other recommendations that anticipated continuation of GLACAA.

In a June 14, 1976, letter to the president of the Los Angeles city council, the CSA regional director wrote that, based on information received to that time, he would not concur in the invocation of section XXIV. He wrote that limiting participation by the poor and community organizational interests to one member each would not comply with CSA regulations requiring maximum feasible participation. He felt that the regional office had not been presented evidence showing that sufficient cause existed to warrant such an action.

In a July 9, 1976, letter to the mayor, the president of the city council, and the chairman of the county board of supervisors, CSA's general counsel wrote that a three-member governing board for GLACAA was illegal and that CSA had no authority to concur in an action to establish such a board. The deputy mayor advised us that, once city officials learned that CSA would not concur in invoking section XXIV, they lost interest in trying to correct GLACAA's problems.

In December 1977, the city advised CSA that it was planning to withdraw from the Joint Powers Agreement. (See p. 3.) In January 1978, the Technical Services Institute, a private consulting firm under contract to GLACAA, issued a management audit report on GLACAA's operations. Among the more significant findings were:

--GLACAA's personnel practices manual contained no provisions concerning the rights of employees whose positions were abolished.

--Personnel records were not well organized or well maintained.

--Established bidding and approval procedures for purchases and contracts over $500 had been violated.

--Contrary to established procedures, purchases were made and goods delivered before purchase orders were processed.

--GLACAA lacked an adequate management information system.

--Evaluative tools used to monitor delegate agencies allowed too much variability and subjective judgment on the part of monitors. No written guidelines were established setting forth criteria to be used in scoring each item of performance. Also, the procedure used to obtain data about the performance of delegate agencies relied on the agencies themselves to provide the information, and the data supplied were not always valid.

--GLACAA's planning and funding process had not been effective in helping it meet its objectives.

Despite these and several other findings of deficiencies in GLACAA's management, Technical Services Institute did not agree with the 1976 city-county management audit recommendations that GLACAA be dissolved. Instead the report concluded that

"* * * there are sufficient indications that a new healthy and aggressive management approach is now underway which * * * will result in a revitalization of GLACAA * * * we have found no tangible basis upon which to recommend the dissolution of GLACAA. * * *"

On August 7, 1978, CSA regional officials notified the chairman of the Los Angeles County board of supervisors that CSA would terminate GLACAA's funding unless the Joint Powers acted definitively to designate a successor to GLACAA. CSA officials explained to us that they had been constrained from taking action to correct managerial problems by two principal factors: (1) the philosophy of local control and (2) political infeasibility. The regional deputy director stated that title II of the Economic Opportunity Act vests control and initiative in the local community for planning and coordinating Federal, State, and other assistance related to eliminating poverty. He indicated that this statutory requirement precluded CSA from intervening directly to correct GLACAA's problems.

The main disciplinary measures available to CSA are auditing, plus the later disallowance of questioned costs, and defunding. The regional deputy director said that political pressure hindered CSA from closing down GLACAA without having a successor organization in place to continue the flow of funds to the poor.

The only perceived recourse left to CSA officials, then, was repeated warnings of financial repercussions. CSA continued to encourage local officials to bring GLACAA's problems under control and waited until GLACAA could be terminated and its responsibilities transferred without interrupting or interfering with program delivery.

HEW CORRECTIVE ACTIONS DELAYED

In September 1977 the CSA field representative wrote that HEW's Office of Child Development community representative had informed him that HEW also had serious questions about GLACAA's capacity to administer the Head Start program. In early March 1978 CSA, HEW, and Los Angeles County officials met to discuss a county-proposed draft resolution to pull Head Start out of GLACAA because of persistent complaints from Head Start delegate agencies about poor program administration. County officials wanted HEW to tell them what to do with the Head Start program. HEW and CSA officials responded that the county <u>was</u> the program and <u>they</u> had to decide what to do with it.

In the meantime, California State officials had also been reviewing their part of GLACAA's Head Start program. On May 23, 1978, they decided to remove State funding from GLACAA's central Head Start program; as of June 30, 1978, the funding was terminated. On July 1, the State began to provide funding directly to the delegate agencies. In contrast, the county board of supervisors never followed through on the proposed resolution to take Head Start away from GLACAA.

On August 8, 1978, HEW sent GLACAA a letter questioning the financial viability of the program and asking for a response by September 11. The letter stated that failure to respond or show current and continued fiscal capability might result in suspension, termination, or denial of refunding. GLACAA's executive director responded in a 21-page letter generally disputing the charges, concluding that the situation did not warrant termination or denial of refunding, and asking for more technical assistance.

HEW headquarters officials indicated that, although HEW acted to resolve the problems at GLACAA, basically their resolution had to come through CSA because it had oversight responsibilities for most of GLACAA's activities. Also, the officials said HEW took no action to deny GLACAA's funding because it believed CSA would defund before HEW could carry out all the procedures necessary to do so. When ultimately faced with the lack of a grantee due to the closedown of GLACAA, HEW entered into a limited term agreement with the City of Los Angeles to serve as the grantee of the Head Start program.

CHAPTER 3

PROGRAM EVALUATIONS PROVIDED LITTLE INSIGHT INTO GLACAA EFFECTIVENESS

Title IX of the Community Services Act of 1974 (Public Law 93-644) requires the Director of CSA, directly or through grants or contracts, to measure and evaluate the impact of community action and other programs authorized under the act. Title V of the act provides similar authority for the Secretary of Health, Education, and Welfare to evaluate the Head Start program.

Through fiscal year 1979 limited funding has been available to implement title IX, and CSA has relied on a system of grantee self-evaluation to assess the effectiveness of community action programs such as GLACAA. HEW also relies on grantee self-evaluation for assessing local Head Start sponsors with provision for HEW validation.

GLACAA'S SELF-EVALUATIONS DID NOT ASSESS EFFECTIVENESS

GLACAA community action evaluations of delegate agencies were made at the end of each calendar quarter by the delegate agencies' assigned representative from GLACAA; the fourth quarter's evaluation summarized the entire year. The evaluation was to be used as a way of both isolating and correcting problems and areas of poor performance and as a basis on which the area councils could make re-funding recommendations to GLACAA's board.

GLACAA developed a five-part instrument to evaluate delegate agency compliance with GLACAA and Government requirements for administration, fiscal management and controls, personnel, policymaking, and participants and program performance. Only the last category was directed to program performance. These evaluations were to be summarized annually by GLACAA as its self-evaluation and submitted to CSA along with other required grant renewal data as the basis for CSA re-funding of GLACAA. CSA grantee self-evaluation procedures do not provide for periodic CSA validation of grantee evaluation reports.

According to GLACAA's last acting director, GLACAA did not use the quarterly evaluations to make funding decisions for delegate agencies during 1977 and 1978. Instead he said

that the board of directors routinely accepted the executive director's funding recommendations and that, as a result, GLACAA monitors did not bother to write critical evaluations of delegate agencies because such evaluations did not influence their funding.

GLACAA area councils also performed evaluations in making area funding recommendations to the GLACAA board. Evaluation committees of approximately seven people were elected by the area council membership to review delegate agency funding proposals and interview delegate agency executives. They completed standardized rating sheets, compiled scores, and combined these scores with those prepared by the GLACAA planning and grant development division. The composite score was used to rank the delegate agencies and allocate the funds. Funding recommendations had to be approved by the entire council membership. The approved recommendations were then submitted to the planning and grants development division, which in turn submitted them to GLACAA's board of directors.

However, the GLACAA-area council liaison advised us of three places where the objectivity of the process was invalidated. First, at the evaluation committee level, conflicts of interest, personal biases, and delegate agency employee pressure sometimes affected the scoring. Second, at the general council membership level, powerful delegate agencies could influence voting to overturn a recommendation. Third, if board members had personal biases toward certain delegate agencies, area council recommendations could be overturned.

We discussed this evaluation process with two delegate agency directors and an acting executive director who believed that program performance, in many cases, had little to do with the area council's funding recommendations. In an April 1978 letter to the GLACAA board of directors, one delegate agency director wrote:

> "Because of my concern and frustration at not knowing what was behind the funding recommendations of GLACAA, I volunteered to be a part of a committee that would review the overall evaluations and ratings of the proposals submitted by Area 5 delegate agencies. What we found was unbelievable and an insult to our intelligence. There was no visible organized manner of an evaluations procedure, nor was there any consistency throughout the overall process. In addition, there wasn't

any feasible rationale for some of the comments entered into some of the proposals rating sheets. For example, the comments contained terms such as 'not creative,' and 'not innovative.' No further explanations were given in regard to these comments."

This director told us he had submitted to GLACAA a 121-page funding proposal with detailed needs assessments for various types of services. Although his assessments showed changes from the prior year in the priorities of needs in the community he was serving, his agency was re-funded at the same level as the previous year in exactly the same budget categories, as if his proposal had never been seen.

The CSA field representative to GLACAA, in his trip report dated June 23, 1977, recognized the problems with GLACAA's program evaluations. He said that CSA's top priority in its guidance to GLACAA for 1979 should be installing a needs-assessment capability and that political considerations weighed more heavily than objective data in funding decisions. In September 1977 he wrote again that GLACAA did not have the planning or evaluation capacity to tell CSA anything useful about whether the community action program was reducing poverty levels, "notwithstanding the avalanche of paper that tumbles out of it."

During fiscal year 1978, CSA began experimentally making its own evaluations of about 10 percent of the community action agency grantees. CSA's western region developed and began testing two evaluation procedures, which it plans to continue using experimentally. However, as of May 21, 1979, the region had not made any experimental evaluations for fiscal year 1979 and had received no instructions from CSA headquarters about whether to continue the new evaluation techniques.

GLACAA EVALUATIONS OF HEAD START PROGRAM DELEGATES WERE NOT EFFECTIVE

In January 1973 HEW's Office of Child Development published the Head Start Program Performance Standards to be used by grantees such as GLACAA to make performance evaluations of Head Start delegates. Based on the standards, GLACAA's Head Start director proposed that a systematic self-evaluation be undertaken jointly involving delegate agency staff, parents, and central administration staff. GLACAA, using the new performance standards, the Head Start Manual,

and HEW policy issuances, developed an evaluation instrument that it used between 1973 and 1975 to evaluate its Head Start delegates.

In July 1976 HEW published a Federal Self-Assessment Validation Instrument for Head Start program delegates. A GLACAA official advised us that the information requested on the HEW form was almost identical to that of the GLACAA instrument except that it provided for validation of self-assessment information by HEW and required 100-percent compliance on each element, compared to GLACAA minimums, which ranged from 60 to 79 percent.

GLACAA used the new form during 1976 and 1977 and underwent a validation assessment by HEW. Fourteen delegates were rated by GLACAA in six major categories: education, health, mental health, nutrition, social services, and parent involvement. On the average GLACAA found its delegates to be 97 percent in compliance with HEW requirements. GLACAA evaluated over 60 percent of the rating categories for each delegate to be 99 to 100 percent in compliance.

HEW's validation found GLACAA's delegates on the average to be 81 percent in compliance; it evaluated less than 10 percent of the rating categories for each delegate at the 99- to 100-percent level. HEW found several critical evaluation items in each category to be in less than 60-percent compliance, including the following:

Item	HEW compliance rating
Promotion of physical growth by providing adequate indoor and outdoor space, materials, equipment, and time for children to use large and small muscles to increase their physical skills	57
Ongoing observation, recording, and evaluation of each child's growth and development for the purpose of planning activities to suit individual needs	36
Parent participation in planning the education program and in center, classroom, and home program activities	50
Indoor and outdoor premises kept clean and free on a daily basis of undesirable and hazardous material and conditions	50

At the time of our review, GLACAA's Head Start program delegates were working to resolve these problems.

CHAPTER 4

GLACAA'S BOARD OF DIRECTORS DID NOT EXERCISE EFFECTIVE CONTROL

The Economic Opportunity Act of 1964 requires that each community action agency administer its program through a community action board. In keeping with this requirement, the Joint Powers Agreement provided for a 15-member board of directors charged with governing, directing, and controlling GLACAA. However, several reports and other correspondence criticized GLACAA's board for failing to take concerted, effective action when matters were brought to their attention.

REPORTS CRITICIZED INEFFECTIVE DECISIONMAKING

In its 1976 report, the joint city/county audit team stated that the GLACAA board was preoccupied with daily operations and unable to come to decisions on the many matters before it. On May 11, 1977, a CSA official wrote that the board's refusal to involve itself in planning for the agency's overall activities had resulted in lack of overall direction and in lack of followup to insure that goals were achieved.

This situation appeared to persist. The CSA field representative to GLACAA, in a September 1977 trip report, wrote that he told members of the GLACAA board and administration that CSA would assist GLACAA through a guidance letter negotiated jointly by the board and CSA. However, in his February 1978 trip report, he wrote:

> "* * * we are not satisfied with the progress GLACAA is making in responding to our guidance letter of October 14. Specifically, they are headed in the same direction as before * * *, that is, administering the program without planning and innovation."

In January 1978, the Technical Services Institute, in its management audit report, indicated that the board's inefficient decisionmaking processes were a serious problem. The report criticized the board for not always dealing with all agenda items before meetings were adjourned, which resulted in some items being carried over for several months before they were resolved or dropped. When board decisions

were made, the evaluators reported, no mechanisms existed for incorporating them into the agency's operating documents.

The CSA field representative to GLACAA described the board's decisionmaking ability by stating that "Board meetings were like a Tower of Babel, you might as well have pulled people in off the streets to act as Board members." The Los Angeles deputy mayor concurred in this opinion; he justified the city's not appointing high-level people to the GLACAA board by indicating that meetings were a waste of time.

The difficulties described below contributed to the board's inability to exercise effective control.

CONFLICTS OF INTEREST REPORTED WITHIN GLACAA'S BOARD

The Technical Services Institute report pointed out that the conflict-of-interest definition used by GLACAA was too narrow. Under GLACAA's rules, a conflict of interest was considered to exist only when the board member voting would directly benefit financially. They did not, for example, prohibit individuals from voting against competing elements or in favor of funds going to an agency where they might be employed, as long as their salary was paid from another source.

The city and county each allotted one of their appointments of public sector representatives to be filled by representatives of city and county schools. However, as cited in the 1976 joint city/county management audit report, "County schools operated the largest Head Start Program and as such was GLACAA's largest delegate agency." Because of this conflict of interest, city and county management auditors recommended that the board not include representatives of the schools if they were delegate agencies. The recommendation, however, was never implemented, and the board continued to have the city and county schools represented.

The five private sector board members representing business, industry, labor, religion, welfare, or education groups were chosen and appointed by five of eight commmunity organizations listed in the Joint Powers Agreement. The eight designated organizations were:

--California League of Cities, Los Angeles County Division.

--United Way, Inc.

--Los Angeles Federation of Labor, AFL-CIO.

--Los Angeles Chamber of Commerce.

--Welfare Planning Council, Los Angeles Region.

--Los Angeles County Federation of Community Coordinating Councils.

--Indian Center, Inc.

--Council of Oriental Organizations.

The last two organizations listed were GLACAA delegate agencies.

GLACAA MANAGEMENT INFLUENCE OVER BOARD MEMBERS

The former chairman of GLACAA's board, the secretary to the board, former GLACAA employees, and an attorney who had served as GLACAA counsel all told us that GLACAA's last executive director had enough influence to ensure eight board member votes in support for his proposed actions. CSA investigative reports also indicated that board members had been subjected to pressure by GLACAA's executive director, who had made personal, direct attempts to remove board members who opposed him.

The five public representatives to the GLACAA board were appointed by the Joint Powers--two by the county board of supervisors, two by the mayor with confirmation of the city council, and one jointly by the city and county. In a 1977 report CSA investigators referred to the testimony of a former city representative on the board who said that she was removed from the board in March 1977 when GLACAA's executive director complained to the city councilman who had appointed her about her opposition to the executive director's conduct.

During the same investigation, CSA looked into allegations by another board member that the executive director had approached a county supervisor to have the board member replaced. The county supervisor's testimony confirmed the allegation. However, the supervisor stated that he was not the one who had made that board appointment and referred the executive director to the supervisor who had.

An employee of the Indian Center, who had been the Center's board representative in early 1977, advised us that he had been removed from the board because he did not support the executive director. He told us that he was responsible for handling GLACAA employee grievances and that he had overturned most of the new executive director's termination actions.

CSA investigated these allegations in July and August 1977 based on confirming statements of another board member. It reported that the Indian Center board representative had been replaced in April 1977. The new board representative told the investigator that his committee voted to sustain the executive director's position on employee grievances in every instance and that GLACAA employees should not expect to retain their jobs year after year. He told CSA that he had applied for employment at GLACAA and hoped to start working there soon. Both the new board representative and the Indian Center executive director indicated that there had been no pressure applied in changing the board appointee.

Regarding attempts to influence the composition of the GLACAA board, the CSA investigative report stated that, according to CSA regional officials, no rule or regulation bars the executive director of a community action agency from attempting to influence those who select appointees to the board. Rather it is a matter for the board itself to deal with.

As GLACAA's organizing force within the community, area councils played an important role in mobilizing voters during elections of poverty representatives. But, as the Technical Services Institute report and the 1976 city-county audit report stated, the area councils were open to domination by groups who had vested interests in the councils' activities--the large delegate agencies. A delegate agency could use the area councils to promote the election of board members who would treat it well when final funding decisions were made. Former area council organizers said that, once elected, board members representing the poverty community rarely sought to inform themselves about council activities; they had very little contact with the organizers and rarely attended council meetings.

NEED FOR A CODE OF CONDUCT

CSA's 1977 and 1978 audits and investigative reports described systematic efforts to circumvent checks and balances

and a loosening of fiscal controls by GLACAA officials. The Director of CSA, commenting on these findings, has described the wrongdoings uncovered as unethical, rather than criminal. He indicated that CSA was hampered in taking action because GLACAA's board, which had direct control over the agency, supported the executive director and his staff.

CSA and its predecessor, the Office of Economic Opportunity, have issued many instructions concerning the conduct of community action employees and board members. CSA has been working to update some of these regulations, which span an 11-year period. In May 1979 CSA issued a regulation revising its policy statement on boards and committees of community action programs. The regulation, which supersedes four previous instructions of the Office of Economic Opportunity, should prevent some future problems in selecting board members by requiring community action agencies to submit to CSA their plan for selecting poverty and private organization representatives.

CSA's regulation is broad in dealing with the appointment of public representatives, the only requirement being that they be willing to serve. We believe that language of the regulation could permit the same lack of meaningful participation by public sector representatives to occur in other community action agencies as that which occurred at GLACAA.

Regarding the removal of board members, the regulation requires the board to describe in its bylaws the grounds for removal and the procedures to be followed in removing representatives of the poor and of private organizations. Regarding public representatives, the regulation indicates that they serve at the pleasure of the designating officials and may be removed from the board by them. This language may not prevent problems of pressures and influence that existed at GLACAA from recurring.

CSA's regulation includes new conflict-of-interest definitions that preclude officials of delegate agencies from serving on community action boards. These guidelines do not specifically exclude immediate family members of delegate agency officers and employees and other individuals with vested interests in the community action agency's programs.

Regarding the actions of community action agency employees, many instructions authored principally by the Office of Economic Opportunity serve as CSA's requirements for local program sponsors. These regulations are founded on amended

personnel policies and procedures of the Office of Economic Opportunity originally issued in 1966. These instructions cover many of the conflict-of-interest issues and other problem areas that were not acted upon by GLACAA, its board of directors, or CSA. These instructions are generally unclear about when and how CSA will act on violations of its instructions in the event that community action boards and employees do not correct recognized problems.

CSA's general counsel told us that the types of improprieties identified at GLACAA actually involved matters of basic honesty and that existing laws and regulations already covered most of them. However, he felt it might be useful to have ethical standards for community action grantees codified in a single set of instructions.

CHAPTER 5

GLACAA CLOSEDOWN AND TRANSITION TO PUBLIC SPONSORS ENCOUNTER PROBLEMS

The City and County of Los Angeles intend to designate themselves as successor community action agencies to GLACAA, serving a 3,800-square-mile area with a population of 6 million people, of whom more than 600,000 are below the poverty level. The City of Los Angeles would serve areas within its boundaries; the Los Angeles County Agency would serve the rest of the county except the areas served by the city and other communuity action agencies located within the county. When GLACAA closed, the city and county continued to fund GLACAA's delegates on an interim basis. However, the transition to the city and county as public sponsors has run into several difficulties.

TRANSITION TO PUBLIC SPONSORS DELAYED BY PLANNING AND ADMINISTRATIVE PROBLEMS

In December 1978, CSA provided $165,000 to the city to close down GLACAA; $100,000 was for contracting with a management consulting firm to close GLACAA, and $65,000 was for covering indirect costs that might be incurred. HEW agreed to provide the city with another $51,000 for the closedown of GLACAA. The city and county asked about 175 management consulting firms if they would be interested in submitting bids for the contract to close down GLACAA. Twelve of these firms indicated interest in bidding on the contract, but only four submitted proposals by the November 17, 1978, bid closing date.

Closedown contract is "open ended"

Based on these bids, the city 1/ selected Arthur Young and Company, in a joint venture with Moultrie and Simpson, certified public accountants, at a bid price of $129,000. However, the contract entered into by the city and the joint venture on February 12, 1979, was not at the bid price. Instead, the contract provided that the joint venture would

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1/Although the city and county are sharing responsibility for GLACAA's closedown, the city is primarily responsible for administering funds and letting the contract. Based on reports of the consulting firm the city will distribute assets to successor organizations and liquidate liabilities.

spend $180,000 toward the closedown of GLACAA through March 15, 1979, but all tasks incident to the closedown were not expected to be completed by that time.

CSA, the city, and Arthur Young and Company initially recognized that $180,000 would not be sufficient to accomplish the closedown. The contract provided that Arthur Young and Moultrie and Simpson would perform required management services until March 15, 1979, or until the money ran out, whichever came first. CSA, in a December 14, 1978, letter to the city, expressed its intention to make further money available that was reasonable and necessary to accomplish an orderly closedown. The contract was later amended with CSA approval to extend completion to June 30, 1979, and to further increase contract costs to $611,000.

A CSA regional official told us on May 18, 1979, that CSA was not certain that this sum would cover the total cost of the closedown. He indicated that the physical assessment of GLACAA's assets was essentially complete and that the financial closeout audit and related statements were yet to be prepared.

Request for proposal provisions were incomplete

An Arthur Young and Company partner also told us no provision was made in the request for proposal for paying ex-GLACAA employees to assist in the closedown. Arthur Young had envisioned that GLACAA would still be in operation when the management consulting firm took over, and that GLACAA employees would be available to assist in the closedown. However, GLACAA went out of business before the management consulting contract was executed. As a result, provisions had to be made to hire some ex-GLACAA employees. Arthur Young did this by obtaining 15 ex-GLACAA employees as "temporary help" from an employment agency. The salaries of these employees had to come out of the total amount provided for the management consulting contract.

Similarly, Arthur Young found that no provisions were made in the request for proposal for paying GLACAA expenses (rent, utilities, security, etc.) and these costs had to also be borne out of the amount provided for the management contract. Taking these expenses into account, the contract, as executed, left only $63,150 for management consulting fees. CSA awarded a supplemental grant to cover these expenses and to provide the consultant with $129,000 in fees for service.

Audit plans and requirements have not been fully determined

Another matter of concern is how the final audit of GLACAA will be accomplished. The request for proposal stated that the management consulting firm that was awarded the contract to close down GLACAA would, in turn, contract for a final audit of all GLACAA programs through the December 31, 1978, termination date. However, the request for proposal indicated that the management consulting firm did not have to subcontract with another firm if it had its own auditing capability. As the successful bidder, Arthur Young, a national public accounting firm, indicated its intent to employ an affiliate firm, Moultrie and Simpson, to avoid the potential appearance of conflict regarding independence of audit.

Los Angeles city officials told us that independence of audit would be maintained by the Arthur Young affiliate in the joint venture. However, a partner of Arthur Young told us that Moultrie and Simpson would play an active part in the closedown, performing all aspects of the closedown work related to property as well as other tasks. As of May 21, 1979, CSA was planning to have Vasquez and Wilfong conduct the final audit. (See p. 45.)

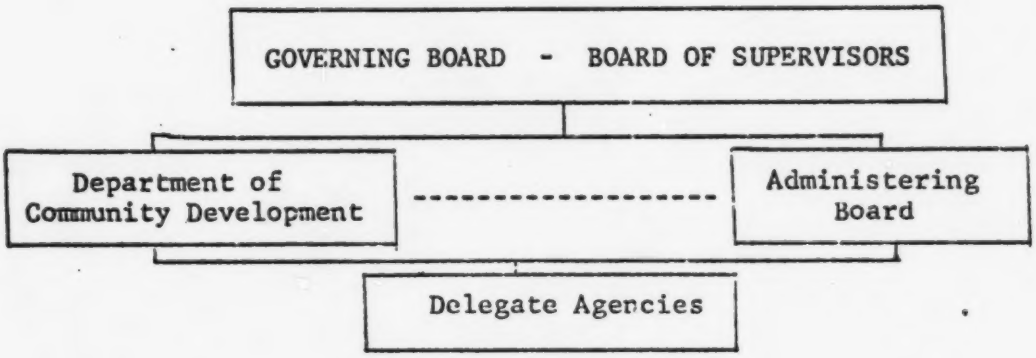
Delays in CSA approval of new community action agencies

In October 1978 the County of Los Angeles received a $75,000 grant from CSA to plan for a successor community action agency. The board of supervisors approved a plan that calls for it to serve as the community action agency governing board with ultimate responsibility for policy decisions. As required by CSA the board of supervisors plan provided for establishing an administering board to advise the governing board on program administration and operation. The administering board was to be comprised of board of supervisors appointees, democratically selected representatives of the poor, and representatives of other community interests.

Day-to-day administration of the program was to be delegated to the county department of community development, which was to subcontract with delegate agencies, including county departments, to operate programs. The organization plan did not describe the organizational responsibility planned within the county department of community development. The county had earlier been reluctant to assume responsibility for Head Start programs. Below is the organizational structure prepared by the county.

LOS ANGELES COUNTY

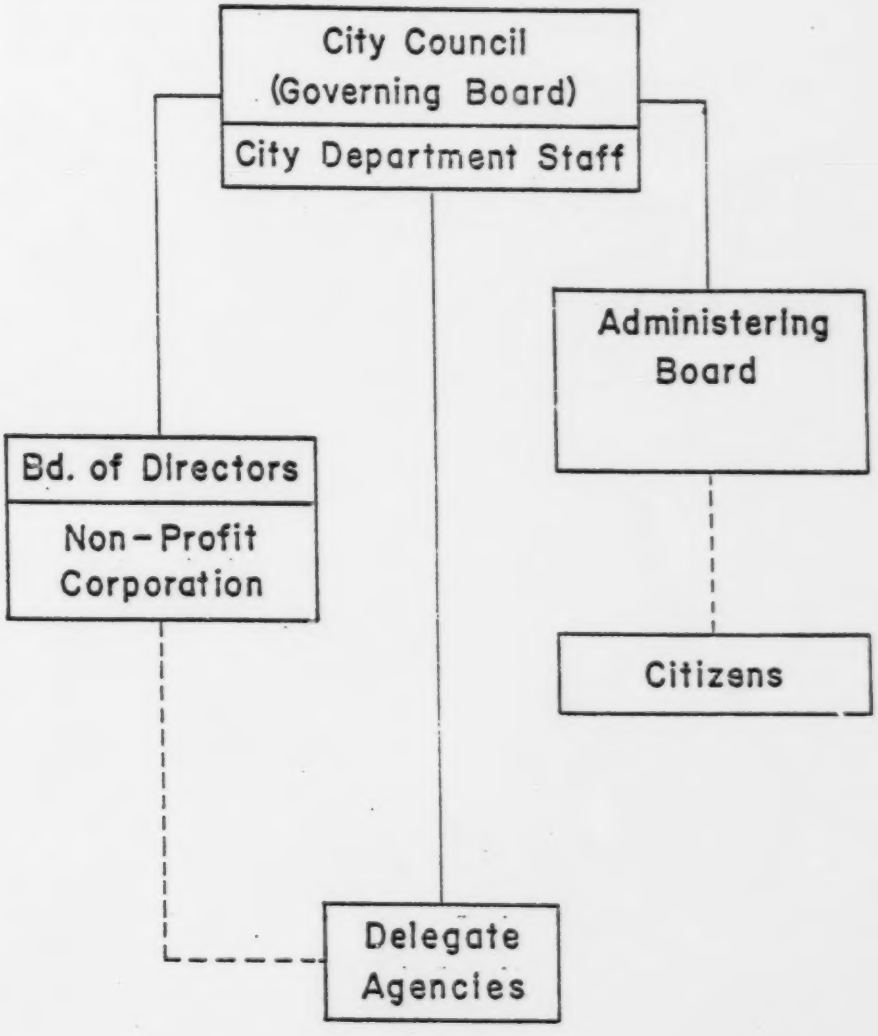
PROPOSED COMMUNITY ACTION AGENCY



However, in May 1979 a representative of the county's chief administrative officer told us that the plan had not yet been submitted to CSA for approval. The county does not not intend to submit the plan until after resolution of the issue of GLACAA's liabilities by the Federal courts (see p. 45), which is scheduled for July 1, 1979.

The City of Los Angeles received $39,000 from CSA to plan for successor community action agency. The city initially planned to establish a nonprofit corporation to carry out technical duties in planning, monitoring, and evaluating the community action program. The city council was to establish an administering board composed of representatives of the poor, public officials, and other community interests; this board's principal responsibility was to be to set program priorities. The city's plan is shown below.

PROPOSED STRUCTURE OF CITY'S COMMUNITY ACTION AGENCY



However, in January 1979 Los Angeles City officials told us that this plan has now been abandoned and a substitute plan has not yet been developed. The city officials told us that they now have their hands full planning for and overseeing the closedown and that they would not submit a plan for a successor community action agency until the issue of GLACAA's liabilities has been resolved. (See p. 45.)

CSA's field representative for GLACAA had some reservations about city and county takeovers as successor community action agencies. He said that, unless the city and county changed their attitude about community action, the types of problems experienced with GLACAA will persist and may worsen. He cited the "hands off" attitude that the Joint Powers exhibited with regard to GLACAA as a major reason for these problems. According to him, local elected officials often view community action programs as simply a funding vehicle to placate constituents by distributing money to them through delegate agencies.

Another matter of concern to CSA officials was that Los Angeles County is too large an area with too many poor people to be adequately served by a single community action agency. They pointed out that the county is not truly a "community," but a combination of communities. The county's poverty population is actually a combination of several poverty populations, each with unique, and often conflicting, needs. Evidence of the problems that can arise from attempting to combine these incompatible groups into one "poverty population" can be seen in GLACAA's past racial strife. The result is that the interests of the various poverty factions are placed in competition with each other and the program's impact is diluted.

CSA regional officials said they would prefer to sponsor several smaller community action agencies in the county, each serving a smaller, more homogeneous population. However, attempts to find alternative sponsors have so far been unsuccessful.

In April 1979 the city controller completed an audit of the city's community development department, the entity proposed for future community action administrative responsibility. The auditors concluded that the department had failed to adequately protect public assets and indicated that the deficiencies revealed were the most serious of any in their memory. Federal and State grant funds for ongoing projects administered by the department totaled $225 million.

CSA FRAUD AUDIT OF GLACAA NOT YET MADE

CSA has also planned a fraud audit as part of the overall investigation of GLACAA. Since CSA does not have the necessary staff to make such an audit (it has only 3 external auditors in region IX and 22 nationwide), it plans to contract with the CPA firms of Vasquez and Wilfong to do the audit.

By the end of 1978, Vasquez and Wilfong were already nearing completion of their periodic audits of GLACAA. However, CSA believed the firms would be unable to issue an unqualified opinion on the financial position without resolving the charges of fraud and mismanagement. Accordingly, the Vasquez and Wilfong audit work had to be expanded. The CSA regional auditor said that the fraud audit, to be done jointly by the two firms, would result in a combined report covering essentially all of GLACAA's funding sources through September 30, 1978. The scope of the audit had been determined and the estimated total cost was to be between $180,000 and $200,000.

CSA initially planned to contract for the expanded audit using GLACAA funds. However, with the freezing of GLACAA funding (see p. 46), money was no longer available to award the contract. In March 1979 the regional director telegraphed the CSA Community Action Office to ask for direct authority to contract for the audits. As of May 14, the region had not received that authority. Without approved funding a contract for the audit cannot be awarded.

The regional auditor was hopeful that the funding problem would be resolved quickly. If so, he expected that the fraud audit could be completed by September 1979. Once that audit is completed and the report issued, CSA plans to have Vasquez and Wilfong audit GLACAA for the period from October 1, 1978, until GLACAA went out of business on December 31, 1978. The regional auditor anticipated that this audit could be completed by December 1979.

RESPONSIBILITY FOR GLACAA LIABILITIES HAS NOT BEEN DETERMINED

Pervading CSA and Los Angeles City and County deliberations about the closedown and takeover has been the central issue of responsibility for GLACAA's liabilities. According to CSA officials, Federal liability is limited to the amount of the grant, and GLACAA's creditors would not be able to hold

CSA responsible if insufficient funds remain in the GLACAA grant to pay all its debts. The city and county contend that they are not responsible for GLACAA's liabilities because section XXI of the Joint Powers Agreement specifically provided that neither GLACAA nor its board of directors had the power to bind the parties to any debt, liability, or obligation. A CSA attorney told us that such a liability escape clause is permitted in joint powers arrangements under California law.

Among GLACAA's liabilities are 20 employee grievance actions for wrongful dismissal. Each of the grievances is supported by either an arbitration award or a court judgment; in all they represent about $840,000 in back pay and benefits plus $45,000 per month in continuing damages which will accrue until settlements are reached.

The employees' attorney said that, despite repeated attempts on his part, GLACAA continually refused to settle the grievances or even honor the court judgments; neither CSA, the city, nor the county will accept responsibility for the obligations. As a result, the employees filed suit in Federal district court in December 1978 seeking a court order that GLACAA cannot be terminated until the obligations are paid, an injunction against GLACAA's closure until a transition plan has been published, and damages of $1 million from the city and county for breach of contract.

The lawsuit contends that CSA instructions require that, incident to either a transition or a closedown, the city or county must publish and approve a plan, providing for the settlement of all liabilities and claims. CSA's answer to the complaint contended that such a plan was not required in the case of GLACAA because it was not a closedown per se, but merely a denial of re-funding at the end of the grant period. On February 13, 1979, the Federal district court judge (1) ruled that a closedown plan must be filed by July 1, 1979, providing for the settlement of GLACAA's liabilities as well as the distribution of its assets and (2) prohibited expenditure of any more GLACAA funds until the plan is filed.

CSA's officials advised us that they are planning to modify regulations governing community action agency designations to clarify liability in joint powers situations to help prevent similar problems from occurring. A footnote to CSA's proposed regulations on community action boards on this issue was deleted shortly before issuance. The footnote stated

that a community action agency formed by two or more independent local governments will not be considered as a separate public agency unless its governing body has the legal power to bind all the governments jointly and without further action by them.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

Audit, investigative, and management reports disclosed that GLACAA continually experienced weaknesses in and circumvention of fiscal and managerial controls. Costs questioned in audit reports were not resolved promptly and management deficiencies persisted over several years without correction. CSA investigations did not result in corrective action because they were not used effectively by CSA operational officials. According to CSA operating officials, the philosophy of local control embodied in the Economic Opportunity Act and limitations in staff for followup constrained them from taking firm action where community action boards did not effectively control programs. CSA did not have clear criteria to identify when Federal action should be taken after grantee or board actions were ineffective in correcting identified problems.

CSA needs to improve the handling of audit and investigative findings to provide better control and safeguards over CSA funds. The recent expansion of CSA's investigative force under the newly created position of inspector general will require increased operational staff support and improved procedures for followup and corrective action on findings.

Because GLACAA's problems were considered noncriminal, CSA officials viewed them as a matter for GLACAA's board, not the Federal Government, to rectify. CSA officials felt precluded from taking action when investigations disclosed that GLACAA's executive director sought to influence or replace members of the board. When unethical actions and improper influence hamper the effectiveness and efficiency of a program, CSA should have methods for correction and control at its disposal.

CSA's new regulations should remedy some of the problems regarding the selection and removal of private organization and poverty area board representatives. However, CSA's regulations covering public representatives could be improved by requiring the board and the sponsoring governmental entity to agree on procedures for appointing, evaluating, and removing public representatives. These procedures should then be incorporated into the designation agreement.

CSA's regulations require that board members not be employees or officials of delegate agencies. To be fully effective in precluding conflicts of interest, this requirement should be expanded to include family members of delegate employees and other individuals with vested interests in the community action agency's programs.

The responsibilities of the City and County of Los Angeles regarding GLACAA were not properly defined in the Joint Powers Agreement establishing GLACAA. CSA found that provisions of the agreement appeared to be at odds with Federal regulations. In January 1976, when the Joint Powers sought to assume responsibility for GLACAA under the terms of the agreement, they were enjoined by CSA from doing so. CSA needs procedures to assure that the terms of public sponsor designation agreements and later amendments are viable and consistent with enabling legislation.

The self-evaluation process CSA used for community action grantees did not effectively measure the impact on alleviating poverty or help GLACCA make funding decisions. GLACAA's evaluations of its delegate agencies focused primarily on administrative matters rather than on assessing the quality of the agencies' services to the poverty population. The evaluation information that GLACCA provided to CSA did not address issues that CSA needs to know about to effectively fund and guide the agency.

GLACAA went out of business on December 31, 1978, but several unresolved problems surround the closedown and transition process. Although the contract for the closedown has been awarded, the ultimate cost has not been determined, leaving the contract essentially open ended. In addition, the provisions for final audit of GLACAA under the closedown contract have not been fully resolved.

The issue of responsibility for GLACAA's liabilities remains unresolved and could result in costs to the Federal Government, the amounts of which have not been determined. CSA should insure that responsibility, accountability, and liability for community action programs and the actions of their officials are clearly defined in Federal and grantee regulations and procedures.

CSA's regulations governing community action boards clarify liability in joint powers situations. CSA should insure that liability is as clearly defined for other forms of community action agencies.

Although the City of Los Angeles initially developed a plan for establishing a successor community action agency, that plan has been abandoned and no substitute plan has been developed. The county board adopted a plan for its community action agency, but has not submitted it for CSA approval. CSA regional officials have reservations about whether a city/county takeover of GLACAA's community action program can adequately serve the needs of the county's poor. Although economies of scale would come into play, several smaller community action agencies could be more susceptible to local control and more responsive to the needs of the poor.

RECOMMENDATIONS

To insure that community action boards are comprised in a manner consistent with the spirit and intent of the law and provide adequate representation, we recommend that the Director of CSA

--develop safeguards in the selection procedures of area councils for poverty community representatives that preclude large delegate agencies from unduly influencing the selection process;

--provide technical training for poverty community representatives to make them more effective board members;

--build safeguards into the processes for removing board members to insulate them as much as possible from political pressures and influence;

--require the board of directors and sponsoring governmental entity to adopt procedures acceptable to CSA for appointing, evaluating, and removing public sector representatives to the board; and

--expand conflict-of-interest definitions to preclude from serving on community action boards not only representatives of delegate agencies (as CSA's rules now provide), but also immediate family members of delegate agency officers and employees and other persons with vested interests in delegate agencies or services to be provided to the poverty community.

We also recommend that the Director of CSA:

--Develop a code of conduct for community action board members and officials. The code could be made a part

of CSA's grant conditions for all community action agencies and provide meaningful consequences for misconduct and for recovery of any costs associated from the community action agency.

--Develop a system for verifying program effectiveness self-evaluations performed by grantees and develop procedures to incorporate the results of evaluation verification into the funding decisionmaking process.

--Make enough operating personnel available to effectively follow up on investigative findings. Also, where an investigation reveals the potential for widespread program abuse, as with GLACAA investigations, CSA should institute, with its own funds, fraud-type audits of community action grantees to identify the scope and magnitude of abuse.

--Develop a clear set of guidelines to reconcile the conflict between a Federal agency's responsibility to protect its funds and the maintenance of local control over the use of those funds. Criteria should be established for taking actions with varying degrees of severity, and these criteria should be clearly understood and acknowledged by local authorities as well as community action administrators and directors.

--Establish procedures for reviewing and approving community action agency designation agreements proposed by sponsoring governmental entities to assure that terms being adopted are viable and consistent with enabling legislation.

We recommend also that the Director of CSA require regional officials, before adopting Los Angeles City/County proposals for community action programs, to thoroughly explore the alternative of designating several smaller community action agencies in the city and county as possible successors to GLACAA.

APPENDIX I

GREATER LOS ANGELES COMMUNITY ACTION AGENCY FUNDING PROGRAM YEAR 1977-78

Funding source		Grant amount (note a)
Community Services Administration:		
Administration and General Community Programing of GLACAA	$10,352,000	
Senior Opportunities	140,000	
Community Food and Nutritiion	223,744	
Energy Conservation	440,602	
Other Program Funds	187,234	$11,343,580
Department of Health, Education, and Welfare:		
Administration for Children, Youth and Families (Head Start)	10,233,519	
National Council on Aging	710,900	
National Institute on Alcohol and Alcoholism	127,276	
National Institute on Drug Abuse	885,276	11,957,188
State of California:		
State Preschool Program	4,952,662	
Department of Energy	26,300	4,978,962
County of Los Angeles:		
Administration on Aging	714,753	
CETA	220,179	934,932
City of Los Angeles:		
CETA		1,114,142
		$30,238,804

a/Data supplied by CSA regional staff.

APPENDIX II

CHIEF ADMINISTRATIVE OFFICER
COUNTY OF LOS ANGELES
713 HALL OF ADMINISTRATION / LOS ANGELES, CALIFORNIA 90012
974-1101

HARRY L. HUFFORD
CHIEF ADMINISTRATIVE OFFICER

January 12, 1976

MEMBERS OF THE BOARD
BAXTER WARD
CHAIRMAN
PETER F. SCHABARUM
KENNETH HAHN
EDMUND D. EDELMAN
JAMES A. HAYES

HONORABLE BOARD OF SUPERVISORS
County of Los Angeles
383 Hall of Administration

Gentlemen:

MANAGEMENT AUDIT REPORT OF THE
GREATER LOS ANGELES COMMUNITY ACTION
AGENCY (GLACAA)

On October 7, 1975, in response to a request from the Los Angeles City Administrative Officer, and on my recommendation, your Board instructed my office to participate in the conduct of a joint management audit with the City Administrative Officer of the Greater Los Angeles Community Action Agency (GLACAA). The findings and recommendations of that audit are contained in the attached report.

In brief, we have found extensive management short-comings within the agency. Critical decisions are not being made and staff morale is poor.

Through our management audit efforts, we have developed a number of recommendations which would better define the role of the Board of Directors and strengthen the ability of the Executive Director to manage the affairs of the agency. These recommendations would help the agency to overcome the problems it now faces. If GLACAA is to be continued as an entity, it is essential that these recommendations be implemented. However, if GLACAA is unable to improve its performance, it should be abolished as an entity.

As your Board is well aware, Federal funding support of poverty programs has declined in recent years and Federal law changes are requiring an increasing proportion of local support for such activities. Given the tensions within the agency, and the very real financial problems it faces now and in the future, both Dr. Piper and I feel that steps should be initiated to dissolve GLACAA and to have the City and the County take over operations of its programs on July 1, 1976.

APPENDIX II

Both the City, through its Demonstration Agency, and the County, through its Department of Urban Affairs, have developed considerable expertise in administering community programs. Creation of Departments of Community Development, now under consideration in both the City and the County would further strengthen their ability to manage this kind of program activity.

To accomplish these objectives, I am proposing that your Board approve the attached management audit report and request the GLACAA Board of Directors to implement the recommendations for improvement in the agency immediately. Also, you should instruct the Chief Administrative Officer to undertake actions necessary to dissolve the Joint Powers Agreement and form the County as a community action agency to be effective July 1, 1976, in the event the agency is unable to resolve the issues facing it.

IT IS RECOMMENDED THAT YOUR BOARD:

Approve the recommendations contained in this letter and the attached management audit report.

Very truly yours,

Harry L. Hufford

HARRY L. HUFFORD
Chief Administrative Officer

HLH:DRS:p
Attachment
cc: Each Supervisor
County Counsel
GLACAA Board of Directors
GLACAA Executive Director
Los Angeles City Administrative Officer
Auditor-Controller

APPENDIX II

CITY OF LOS ANGELES
CALIFORNIA

C. ERWIN PIPER
CITY ADMINISTRATIVE OFFICER

ROBERT E. CHASE
ROBERT O. INGMAN
EUGENE F. KIDDER JR.
ROBERT E. O'BRIEN
ASST. CITY ADMINISTRATIVE OFFICERS

TOM BRADLEY
MAYOR

January 12, 1976

Honorable Mayor of the
City of Los Angeles

Honorable Board of Supervisors
of the County of Los Angeles

Honorable Council of the
City of Los Angeles

Gentlemen:

Transmitted herewith is the joint Management Audit Report of the Greater Los Angeles Community Action Agency.

C. Erwin Piper
City Administrative Officer
City of Los Angeles

Harry L. Hufford
Chief Administrative Officer
County of Los Angeles

HLH:CEP:gj

DESIGNATION, CONVERSION, AND OTHER CHANGES IN COMMUNITY ACTION AGENCIES

The Economic Opportunity Act of 1964 provides that a State or a political subdivision or combination of subdivisions thereof may designate a community action agency. After such designation, CSA must recognize that the agency meets certain legislative and administrative requirements before the designation takes effect. If a State or local subdivision does not designate an agency for an area, CSA may do so.

A State or local government wishing to designate a new agency or change the designation of an agency may designate

--itself or a combination of subdivisions or

--another agency, which may be either a separate public agency or a private nonprofit organization.

These two approaches differ basically in the degree to which the State or local government becomes formally involved in the agency's work.

When revoking the designation of an agency, the State or the local subdivision may decide not to make a new designation. In this case CSA may designate an agency to serve the community. A political subdivision may opt not to be served by a designated agency. If the agency was designated by a State or another subdivision, the opting-out subdivision may designate a new or existing agency to serve it. If a designation is not made, CSA may do so.

When CSA terminates all assistance to an agency for cause, this constitutes a withdrawal of CSA's recognition of the agency. CSA suspension, termination, or refusal to refund less than all assistance to an agency may constitute withdrawal of CSA recognition of an agency. However, CSA may continue to fund the agency as a limited-purpose agency.

APPENDIX III

During our review CSA provided us with information regarding changes among agencies. The following table summarizes some of this information:

Changes January 1973 through November 1978

CSA Regions		Terminations	Refusal to refund	Publicly controlled agencies converted to privately controlled	Voluntary dissolution	Publicly controlled agency as of November 1978 converted from privately controlled CAAs		
						Urban	Rural	Other
I	Boston	1	2	-	1	-	-	-
II	New York City	1	4	1	1	1	-	1[a]
III	Philadelphia	2	3	-	4	2	1	-
IV	Atlanta	3	2	-	7	9	6	-
V	Chicago	1	-	-	-	5	1	-
VI	Dallas	1	1	-	-	8	7	-
VII	Kansas City	3	-	-	1	4	1	-
VIII	Denver	-	-	1	1	6	9	1[b]
IX	San Francisco	2	-	2	-	7	10	-
X	Seattle	-	3	-	4	2	-	-
	Totals	14	15	4	19	44	35	2

Notes:

a/unknown whether urban or rural

b/CAA was a State Economic Opportunity Office

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